



## National State Auditors Association

STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR  
PEER REVIEW  
LETTER OF COMMENTS  
JANUARY 1, 2006 TO JANUARY 31, 2007



# National State Auditors Association

February 23, 2007

Mr. Tom Salmon, State Auditor  
Vermont Office of the State Auditor  
133 State Street  
Montpelier, Vermont 05633-5101

Dear Mr. Salmon:

We have reviewed the system of quality control of the Vermont State Auditor's Office (SAO) in effect for the period January 1, 2006 through January 31, 2007 and have issued our report thereon dated February 23, 2007. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

## **Financial Audit Field Work Standards**

### **1. Workpaper Review**

Comment – GAGAS field work standards for financial audit paragraph 4.24d requires evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report.

The SAO report on the State of Vermont's Comprehensive Annual Financial Report was dated December 31, 2006 and was issued January 12, 2007. In our review of the workpapers we noted numerous workpapers that were dated after the issuance of the report. We noted some dated as late as February 16, 2007. Based on the date of some of the workpapers we reviewed, it appears those workpapers were not completed and reviewed until after the issuance of the report.

Recommendation – We recommend the SAO follow GAGAS field work standards for financial audit paragraph 4.24d and require workpapers and supervisory review be completed before the audit report is issued.

## **2. Internal Control**

Comment – AICPA audit standards, section AU319.25, require that auditors obtain an understanding of the design of internal controls, and determine if the controls have been placed in operation, to plan the audit and determine the nature, timing, and extent of tests to be performed. AICPA audit standards, section AU319.61, require that auditors document their understanding. GAGAS field work standards for financial audit paragraph 4.24c requires specific documentation when the auditors are not relying on internal controls in computerized systems that produce data important to their objectives. The documentation should, among other things, address the kinds and competence of available evidential matter produced outside the computerized information system and/or the auditors' plans for direct testing of the computerized data.

The SAO documentation did not always clearly show that the auditor had obtained an understanding of internal controls or that the controls had been placed in operation. Additionally, the SAO did not sufficiently document the effect that assessing control risk at maximum for significant transactions processed through IT systems would have on the methods used by the auditors when using data produced by these systems to support their conclusions.

Recommendation – We recommend that the SAO train its staff in the internal control audit documentation requirements, develop documentation standards and provide sufficient auditor supervision and review of work performed to improve its documentation of internal controls relevant to the audit areas and demonstrate that key controls have been placed in operation. Further, we recommend that the SAO better document methods to be used to verify and validate data obtained from automated systems when IT controls are not relied upon and the data is used to achieve the audit objectives.

## **AICPA Reporting Standards**

### **3. Required Supplementary Information**

Comment – GASB statements, codified as 2400.121, require (as required supplementary information) the presentation of the government's budget to actual expenditures at its legal level of control. This schedule can be presented as supplemental information or as a separate report referred to in the notes to the required supplemental information. AICPA audit standards, section AU558.08, requires auditors to disclose the omission of required supplementary information as an explanatory paragraph in the audit report.

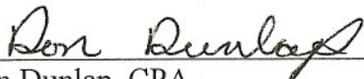
The state of Vermont neglected to include the required budget report in its Comprehensive Annual Financial Report or as a separate report. The SAO did not include an explanatory paragraph in its auditor's report disclosing that the state's

Comprehensive Annual Financial Report omitted this required supplementary information.

Recommendation – We recommend that the SAO be aware of all required supplementary information required by GASB. It should train auditors about their responsibilities for required supplemental information and the limited procedures they need to perform as required by audit standards. When required supplemental information is omitted or presented in a way that is inconsistent with GASB requirements, the SAO should include an explanatory paragraph in its audit report explaining the omission or deviation.

In the attached correspondence dated February 23, 2007, the Vermont State Auditor's Office provided its response to the letter of comments recommendations.

Respectfully submitted,



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Don Dunlap, CPA  
Team Leader  
National State Auditors Association  
External Peer Review Team



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Alice M. Fast, CPA  
Concurring Reviewer  
National State Auditors Association

THOMAS M. SALMON, CPA  
STATE AUDITOR



STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR

February 23, 2007

Mr. Don Dunlap, CPA  
Team Leader  
Ms. Alice M. Fast, CPA  
Concurring Reviewer  
External Peer Review Team  
National State Auditors Association  
449 Lewis Hargett Circle, Suite 290  
Lexington, Kentucky 40503-3590

Dear Mr. Dunlap and Ms. Fast:

Thank you for your report dated February 23, 2007 and the letter of comments issued in connection with the Vermont State Auditor's Office ("SAO") system of quality control for the period January 1, 2006 through January 31, 2007. On behalf of all SAO personnel, I thank the peer review team for its competence, professionalism and constructive approach to this engagement.

We are pleased that you concluded that our quality control system is suitably designed for conducting financial audits and that you concluded we demonstrated compliance with government auditing standards sufficient to validate the results of our work.

We appreciate the work of your staff in providing an independent evaluation of our quality control system and appreciate the feedback that you have provided to us. We agree there are improvements that can be made and point out that we have taken substantial steps in our ongoing initiative to revise our professional standards manual. We believe that once this project is completed later this year that it will provide the foundation for incorporating your comments. As requested, the following comments are in response to your observations and suggestions to further enhance our internal quality control system.

*Financial Audit Fieldwork Standards*

Recommendation - We recommend the SAO follow GAGAS field work standards for financial audits paragraph 4.24d and require workpapers and supervisory review be completed before the audit report is issued.

Response - We agree with your suggestion and will incorporate specific guidance regarding GAGAS fieldwork standards paragraph 4.24 (d) in our revised professional standards manual and it will be implemented for our fiscal 2007 financial statement audit.

Recommendation - We recommend that the SAO train its staff in the internal control audit documentation requirements, develop documentation standards and provide sufficient auditor supervision and review of work performed to improve its documentation of internal controls relevant to the audit areas and demonstrate that key controls have been placed in operation. Further, we recommend that the SAO better document methods to be used to verify and validate data obtained from automated systems when IT controls are not relied upon and the data is used to achieve the audit objectives.

Response - We concur with your recommendations and will provide training to SAO staff in internal control audit documentation requirements. Enhancing the development of staff through training is one of my specific goals for the office this year. In addition, the revision of our professional standards manual will incorporate your recommendations regarding documentation and supervision and review and these will be implemented for our fiscal 2007 financial statement audit.

*American Institute of Certified Public Accountants ("AICPA") Reporting Standards*

Recommendation - We recommend that the SAO be aware of all required supplementary information required by GASB. It should train auditors about their responsibilities for required supplemental information and the limited procedures they need to perform as required by audit standards. When required supplemental information is omitted or presented in a way that is inconsistent with GASB requirements, the SAO should include an explanatory paragraph in its audit report explaining the omission or deviation.

Response - We agree with your recommendation that the SAO provide training to staff with respect to supplemental information required by the Governmental Accounting Standards Board ("GASB") and AICPA reporting standards. We will implement the recommendation this year. With respect to the specific finding that the State of Vermont neglected to include a required budget report in its CAFR or in a separate report, we feel that this issue needs to be further analyzed. Accordingly, we intend to consult with the Attorney General's office and perform additional research on this topic as part of our audit of the fiscal 2007 financial statements.

Sincerely,

*Thomas M. Salmon CPA*

Thomas M. Salmon, CPA  
State Auditor